

MARKET REPORT NOVEMBER 2009

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Calculated from the crop results available at present, the **world** hop crop 2009 is supposed to be more than 100,000 mts (2008: 111,000 mts). Worldwide alpha acid production is estimated to be more than 10,000 mts alpha (Comment of the author: all alpha quantities mentioned here are based on values before processing, i.e. considering losses during storage but not considering production losses).

The growing countries in the **European Union** account for approx. 49,000 mts of hops or 4,400 mts of alpha acids. This would be almost 700 mts alpha less than in 2008 which was, however, a record crop in the European Union. Crop 2009 is an average crop despite considerable storm damage in some growing countries like Germany or the Czech Republic.

Current estimates for the **USA** are approx. 4,700 mts alpha acids. This means that almost 600 mts alpha more from the US would be available on the market than last year. This is exclusively due to the enormously high yields per hectare as the alpha contents are slightly below average for almost all US varieties.

The crop quantity in **China** is supposed to be about 850 – 900 mts alpha acids. Exact crop results are not available at present.

For the second time in a row, more than 100,000 mts of hops and more than 10,000 mts of alpha were produced worldwide. This is mainly due to the highly increased growing acreage. After crop 2007 an additional approx. 7,000 ha of hops were planted worldwide, 4,000 ha of it in the **US** growing regions, 1,500 – 2,000 ha in **China** and 1,500 ha in the **European Union's** hop growing countries. In addition, this new acreage has almost exclusively been planted with newly bred varieties which have a very high yield and alpha potential, therefore increasing productivity per hectare significantly.

These acreage increases were induced by a strong increase in demand for long-term contracts by the brewing industry. After the years 2006 and 2007 with a scarcity of hops and exploding spot market prices, the breweries were eager to secure their raw materials supply by concluding contracts. At the same time, the brewing industry was looking for possibilities to save raw materials and to reduce cost. Recipes were changed and more and more highly efficient hop products were used. Both measures lead to reduced alpha dosage per hectolitre beer.

Already at the end of 2008 it became evident that the worldwide economic crisis would not remain without consequences for the international brewing industry. The expected increases in output had to be corrected downwards. After world beer output had grown by 4% to 6% annually in the years 2004 to 2007, it only grew by 1.6% in the brewing year 2008. For 2009, a decreasing or at best stagnating beer market has to be expected, which will significantly impact hops demand. Whereas, at the beginning of 2008, the brewing and hop industries still expected an

increasing demand for more than 9,000 mts alpha acids from brewing year 2009 onwards, the demand will be significantly less than 8,000 mts alpha acids because of these facts.

A consequence is that in crop 2008 already, the international brewing industry bought more hops than it needs now and concluded more forward contracts than necessary. Later calculations show that in 2008 already approx. 2,700 mts alpha acids more were produced than were needed. Parts of this overproduction are still unsold in farmers' hands, especially in China and in the EU countries Poland and Slovenia or in the hands of some hop trading companies. Further stocks in the international trade have been sold to the brewing industry but are still on stock for deliveries on call. Finally, breweries build stocks because hop purchases were called off and paid for but have not yet been used in brewing.

The surplus in crop 2009 amounting to at least 2,500 mts alpha acids will contribute to a further increase in stocks. Within a very short time frame the world hop industry finds itself again in a menacing oversupply crisis. Markets prove this. Breweries who have too many contracts try to roll their contracts into later years or to cancel them to control their stock situation. No hop growing country in the world deals with significant spot hop quantities. Only in Germany trade companies take unsold spot hops in pools, either with very low or no down payment prices at all.

The international hop industry must reduce the hop growing acreage as soon as possible to stop overproduction. Especially those countries and hop growers have to act who increased their hop growing acreage during the last few years without having any contract coverage. But also the US and Germany whose coming crops are mainly sold by contract have to look for possibilities to reduce hop growing acreage, even though this will be difficult. Looking for solutions without consulting the brewing industry will not be possible. The brewing industry must be aware of its responsibility for the occurrences during the last three years.

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